Asian infrastructure opportunities set to grow in wake of COVID-19 pressure

Key points

- *Government and corporate liquidity constraints are creating investment opportunities in infrastructure across Asia.*
- *Each country is at its own stage of maturity and presents its own risks, which must be carefully managed.*
- *Local expertise in each market is critical to successfully source deals and manage risk.*

The coronavirus pandemic could prompt cash-strapped governments across the booming Asian region to turn to the private sector to help fund the infrastructure funding gap, with the Asian Development Bank indicating that an estimated $US26 trillion investment in crucial infrastructure is required up to 2030.

It presents a significant opportunity for investors, with governments in China, India, Indonesia and the Philippines previously announcing ambitious infrastructure programs to cater to a growing middle-class.

APG Asset Management's Head of Infrastructure Investments, Asia Pacific, Hans-Martin Aerts, said the impact of COVID-19 may lead to more deal flow because it has put pressure on government and corporate budgets.

"Now all of a sudden they find themselves in a situation where there are liquidity constraints, so they need to start recycling capital," he said. "This would create not only more deal flow, but also more realistic assumptions or expectations when it comes to valuation."

More than 600 infrastructure deals were completed in the region between July 2017 and June 2020, with investments primarily focused on renewable energy and transport, as well as power and energy.

Higher risks

The region presents a host of risks including government/political stability, regulations, relationships, and currency. India is currently fighting a strong COVID-19 outbreak and the country's credit rating was recently downgraded.

Nonetheless, Ambalika Banerji, Executive Director – Direct Investments of the National Investment & Infrastructure Fund India, Mumbai, said the government remained committed to building new infrastructure.

"COVID-19 – what we are seeing is really hastening the reform process," she said.

David Luboff, Member and Head of Asia-Pacific Infrastructure at KKR in Singapore, said India was the deepest market across Asia, while South Korea was one of the earliest markets in Asia to accept investment in infrastructure. He said the Philippines was the leading market across southeast Asia because of established private sector ownership and social acceptance for privately held infrastructure.

"A well-diversified infrastructure portfolio should have an allocation to the world's biggest region," he said.

"I think we are going to see what we saw in Europe 20 years ago, where the asset prices will go up, but at the moment you don't have that. Most transactions – and this is changing, frankly – but most transactions are still bilaterally negotiated, and you need the right partner."

Effectively managing risk requires having people on the ground who understand the nuances of each market. It involves assessing precedents, such as how enforceable contracts have been, how easy it has been to get capital in and out, and how likely concession deeds have been maintained.

"The real work starts once you sign the deal," according to Aerts. "There's a continuous renegotiation going on throughout the lifetime of the investments, which creates a whole new dimension of asset management."

For a copy of Frontier's recent paper about the Asian infrastructure market email AsianInfra@frontieradvisors.com.au.

Key questions the panellists answered

- *(42.50m) How reliable is the rule of law when investing in Asian infrastructure?*
- *(48.00m) What risks may investors be underestimating about Asia? Are there any other surprises?*
- *(58.20m) There have been a number of non-performing loan in the past few years in India. Are the banks ready to lend for infrastructure projects?*
- *(1.08.40m) How do you treat ESG issues when you're looking at new projects in India?*